dynamic

1978 Annual Report

Bill

Dynamic Mining Exploration Ltd.

(No Personal Liability)

To The Shareholders

The Directors are pleased to present the annual report of the company to Shareholders for the year ended December 31, 1978, together with the consolidated financial statements for the period. The company's net production of 46,880 barrels of oil resulted in gross income of $565,305 or $242,158 after royalties, taxes and operating costs. By way of comparison, these properties produced 37,056 barrels of oil in 1977 for an income of $178,208 after royalties, taxes and operating costs. The first quarter of 1979 showed production of 10,574 barrels (1680.3 m^3) and a gross revenue of $129,068 as compared to 10,047 barrels (1596.6 m^3) and a gross revenue of $118,629 in the first quarter of 1978. In spite of an unusually cold winter on the prairies, resulting in a late Spring start-up, production levels were increased marginally.

The company has participated in the drilling of twelve wildcat wells in the past 15 months. Of these, only the Damson-McCullock # 2 in BRAZOS COUNTY, TEXAS, was a commercial success, producing approximately 50 barrels per day and some 250 MCF of gas.

We were greatly disappointed with the results of the KISSINGER 8 WELL PROGRAM in which we have a 3.125% working interest. All wells drilled were dry and abandoned. We have been advised by Kissinger that a farmout has been negotiated on the EAST GREGORY PROSPECT in SAN PATRICIO COUNTY, TEXAS. A test well will be drilled at no cost to the company later this year.

Seismic work has been completed on our BIGORAY acreage indicating a subsurface feature. Plans are underway to drill a well on either Section Two or Section 12 later this summer. Dynamic has a 12½% working interest in the prospect acreage.

A gas contract has been signed on our EAST MARTIN HILLS reserves. We will be drilling six development wells and installing the gathering system and plant this winter. Production is expected to commence prior to November, 1981.

Petromark Minerals, operators of our land holdings in the DORIS CREEK area of Alberta, have advised that they do not have any plans for additional drilling on our holdings this year. Seismic data is currently being reviewed along with information received from others drilling in the area and an attempt will be made to farm out a portion of the acreage.

The Company has been a participant in an exploration program in the BAKER LAKE area of the Northwest Territories since incorporation in 1969. To date, in excess of $3.5 million has been spent on geological reconnaissance work and a limited amount of diamond drilling. An airborne spectometer survey in 1974 indicated in excess of 100 anomalous areas on our properties. Limited diamond drilling in 1975 and 1976 tested two of the high grade showings. Significant intersections of mine grade material were cut but the amount of work done was insufficient to prove up the required tonnage to justify development. Cominco Ltd., the operator at that time, elected not to renew their option and as a result, have no further interest in the project.

For the past two years, the property has been maintained on a caretaker basis awaiting the outcome of a court injunction restricting exploration in areas of Cariboo activity. As this report is being written, the matter is being considered by the courts and we expect a conclusive ruling in the Fall. Under the present regulations, we are allowed to enter certain areas for limited time periods during the exploration season. We will be allowed access for diamond drilling after July 30 of this year. We have been advised by Pan Ocean Oil Ltd., a wholly owned subsidiary of Marathon Energy Inc., operators of the project, that approximately 7,500 feet of drilling is planned, resulting in a gross expenditure of about $300,000 for the consortium. Supplies and equipment are on the property and we expect the program to commence on schedule August 1. Drilling will be concentrated in the area of the 74-1W showing. A hole drilled on this anomaly in 1975 intersected more than 175 feet of mineralization grading from 2.4 lb./ton to 16.2 lb./ton. It is our intention to drill the showings to the contact area between the Kazzan Sandstone and the granite basement where we feel conditions are most favourable for the deposition of ore grade material in sufficient tonnage to warrant further development.

Since December of last year we have been acquiring freehold acreage in CENTRAL ALBERTA. To date we have leased and optioned

interests in a total of 6,240 acres. We are considering offers to drill two of the prospects later in the summer. The company has an 80% working interest in all lands between Twps 43 and 46 and 75% in lands north of 46.

Because of difficulties experienced in acquiring acreage our group has decided to disband the TENNESSEE-KENTUCKY project. A limited amount of land was acquired in prospective areas. However we do not have any immediate plans for drilling.

A seismic program has been completed on lands surrounding our acreage in FOSTER & TOWNER COUNTIES, North Dakota. Several anomalies have been defined and will be tested by other operators who plan at least four wells this summer in the general area of our holdings.

We look forward to an active 1979 exploration season.

Respectfully submitted on behalf of the Board,

Gordon R. Travis
President

June 12, 1979

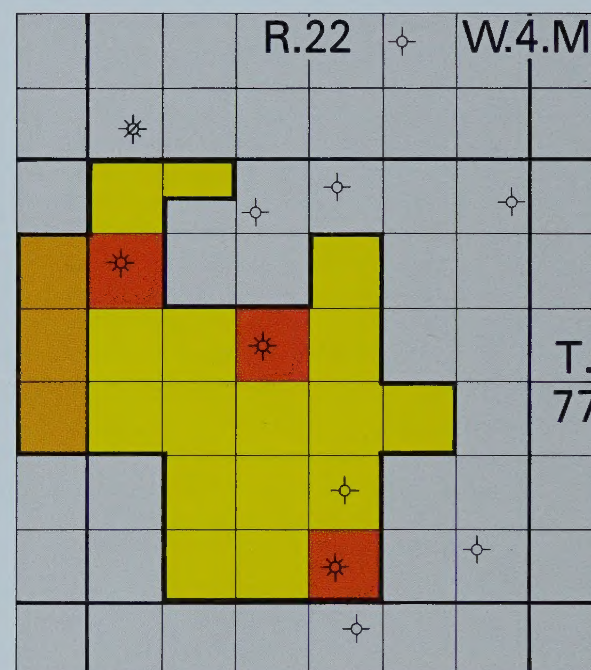
East Martin Hills:

A dry hole drilled in 10-77-22 W4M at EAST MARTIN HILLS has not detracted from our overall reserve and deliverability forecasts for this property. Six additional wells are scheduled for drilling during the 1979-80 winter season. Plant and gathering systems will be installed during the winter of 1980-81 and we anticipate initial production prior to November 1981. A gas contract has been negotiated.

Our group has recently completed analysis of detailed seismic data on our BIGORAY acreage. We have been advised that an IRETON test is scheduled for later this year on either section 2 or 12 in which we have a 12½% interest.

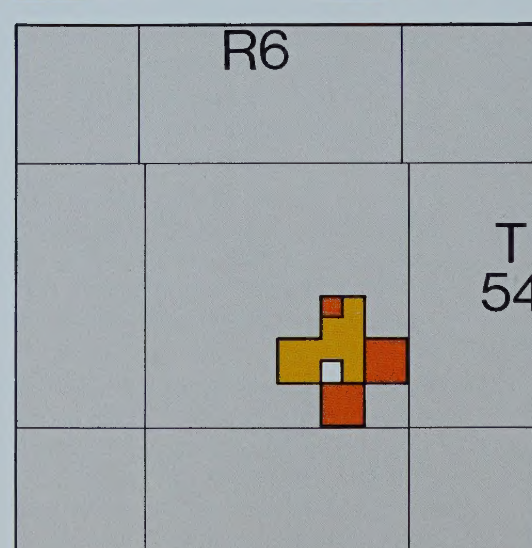
EAST MARTEN HILLS AREA
ALBERTA, CANADA

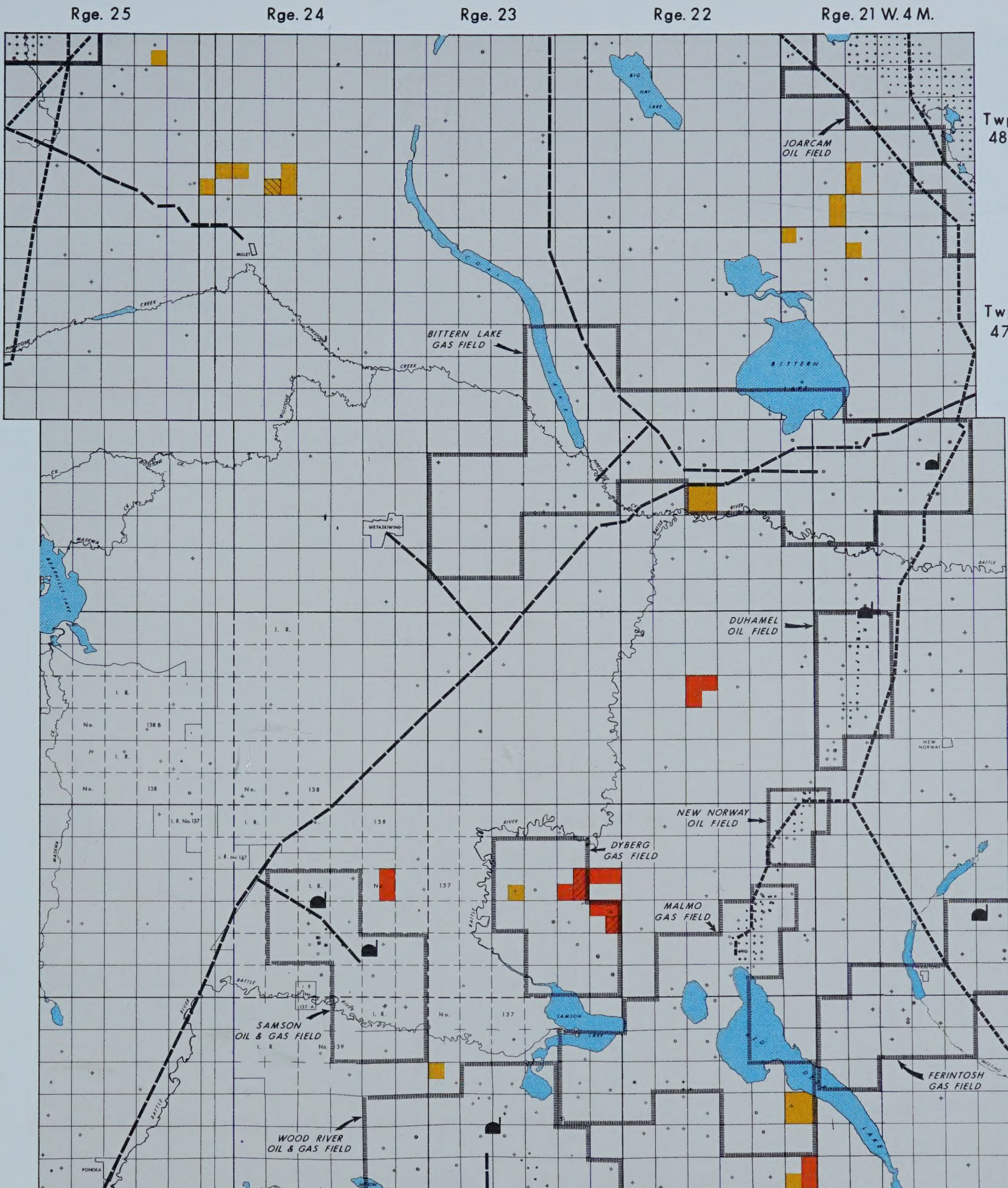
3.333%   8.333%
6.666% B.P.O. 3.333% A.P.O.



BIGORAY AREA, ALBERTA
DYNAMIC MINING

2.5 W.I.   12.5 W.I.

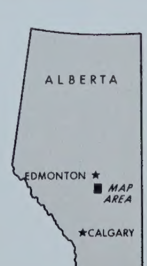




GAS PIPELINE

OIL PIPELINE

GAS PROCESSING PLANT



LEASES

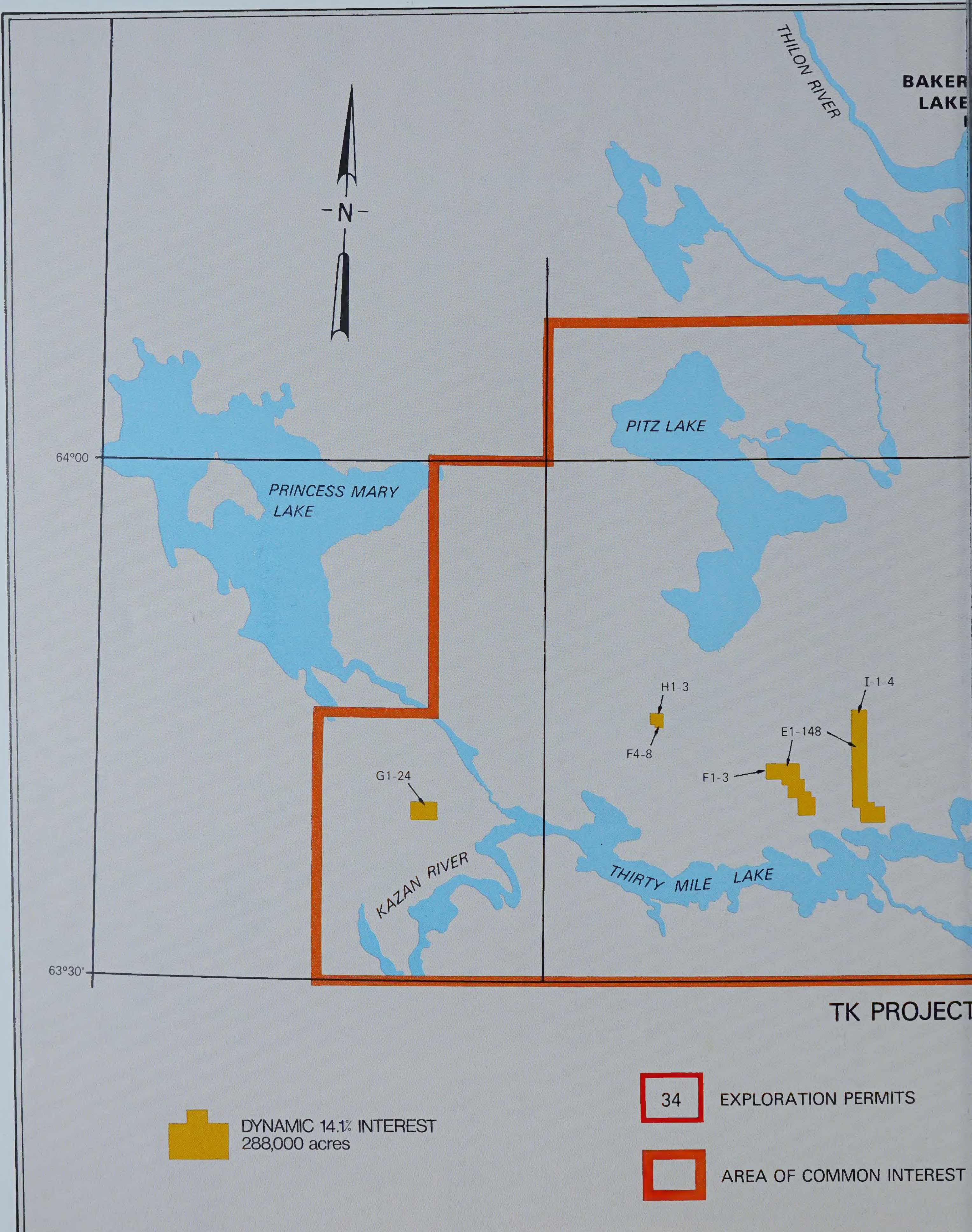
LEASES (PARTIAL INTEREST)

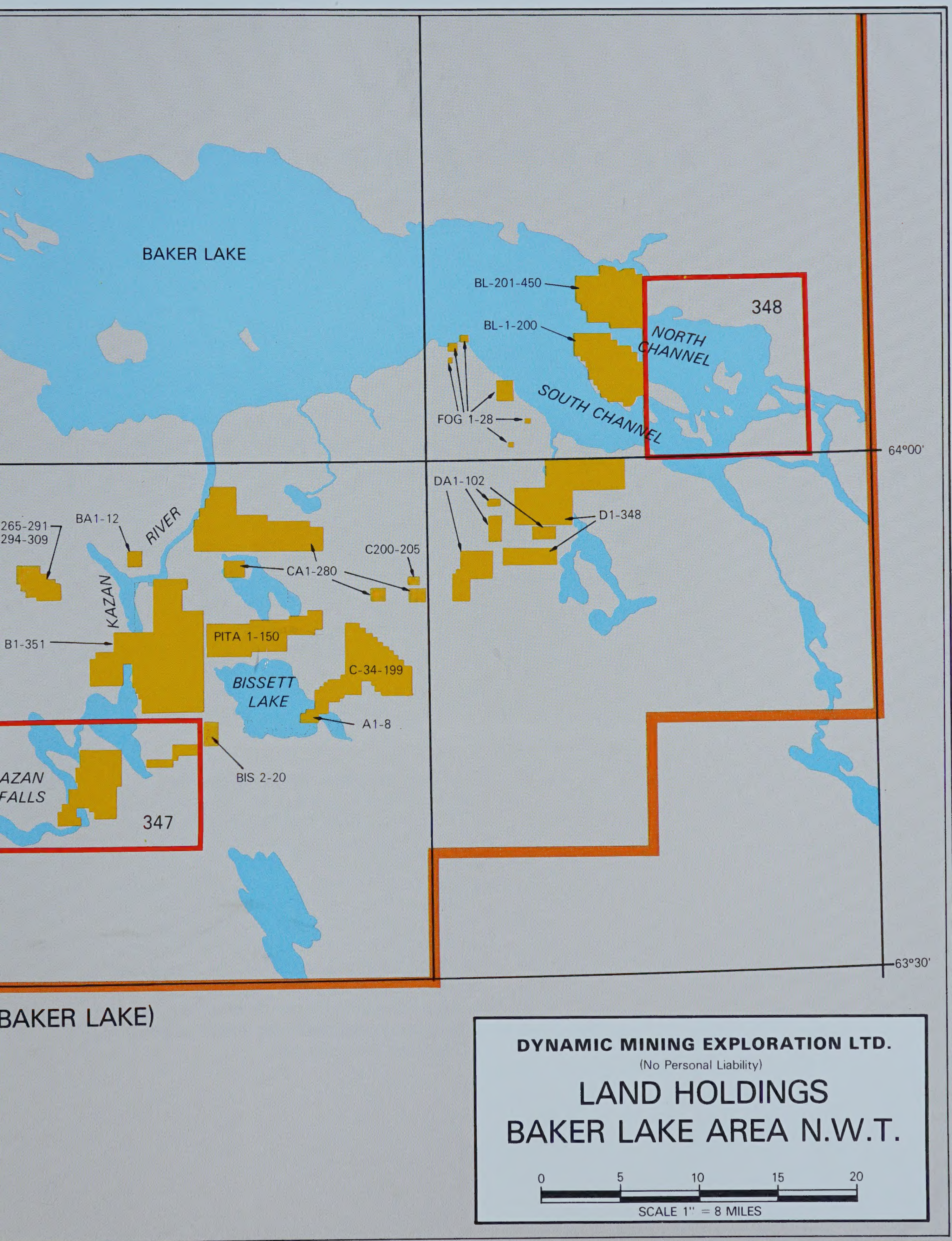
LEASE OPTIONS

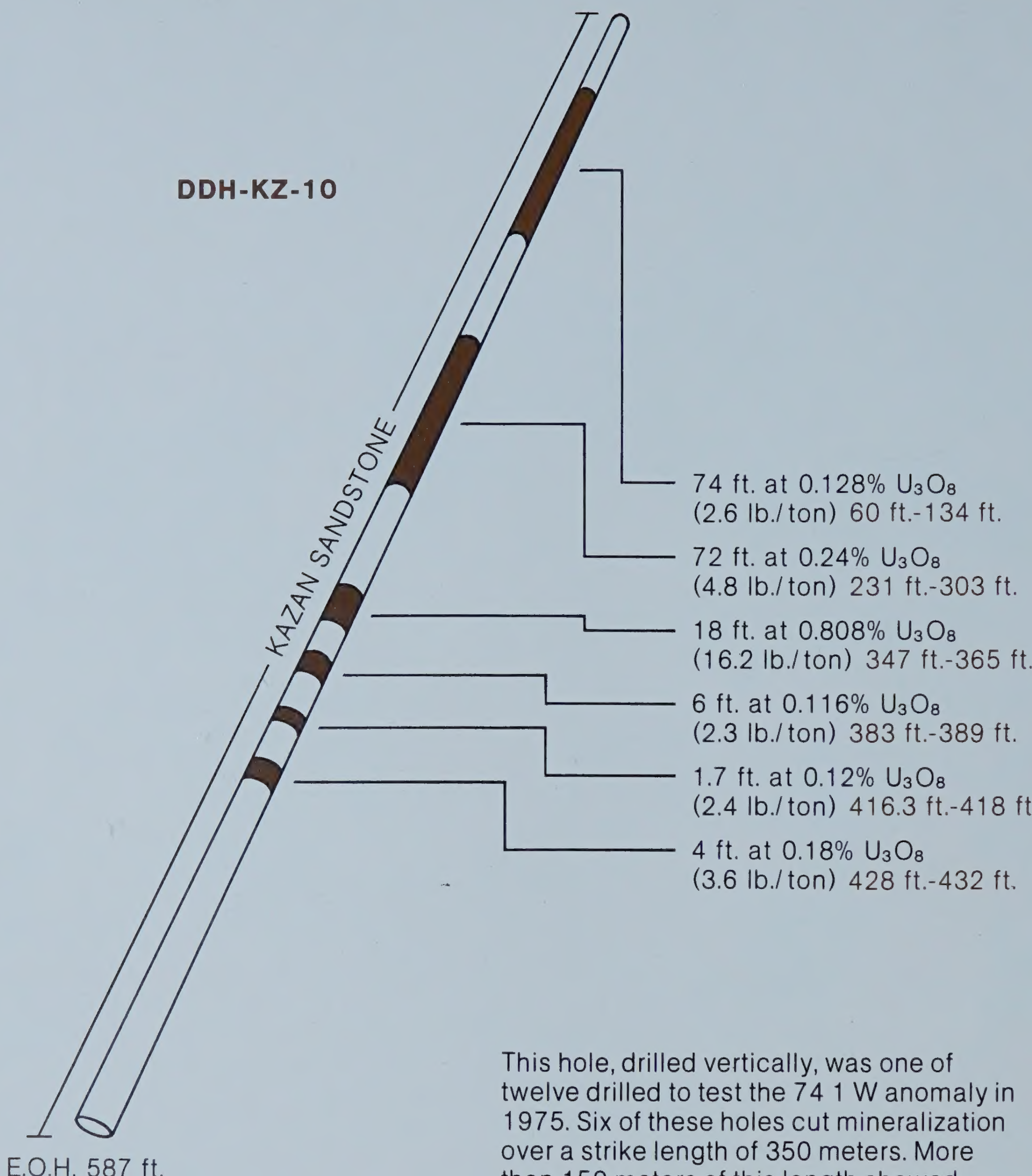
LEASE OPTIONS (PARTIAL INTEREST)

1979 LAND ACQUISITION PROGRAM

DYNAMIC MINING


N
THILON RIVER
BAKER
PITZ LAKE
64°00
PRINCESS MARY LAKE
H1-3
I-1-4
E1-148
F4-8
F1-3
G1-24
KAZAN RIVER
THIRTY MILE LAKE
63°30'
TK PROJECT
34
EXPLORATION PERMITS
DYNAMIC 14.1% INTEREST
288,000 acres
AREA OF COMMON INTEREST


BAKER LAKE
BL-201-450
BL-1-200
348
NORTH CHANNEL
SOUTH CHANNEL
FOG 1-28
64°00'
DA1-102
D1-348
265-291
294-309
BA1-12
RIVER
KAZAN
CA1-280
C200-205
B1-351
PITA 1-150
C-34-199
BISSETT LAKE
A1-8
BIS 2-20
AZAN FALLS
347
63°30'
BAKER LAKE)
DYNAMIC MINING EXPLORATION LTD.
(No Personal Liability)
LAND HOLDINGS
BAKER LAKE AREA N.W.T.
0 5 10 15 20
SCALE 1" = 8 MILES



This hole, drilled vertically, was one of twelve drilled to test the 74 1 W anomaly in 1975. Six of these holes cut mineralization over a strike length of 350 meters. More than 150 meters of this length showed evidence of extensive mineralization across important thicknesses: KZ 10 - 581 feet of 1.76 pounds U_3O_8 per short ton including all mineralized and unmineralized sections between surface and end of hole. In KZ 10 mineralized sections vary in grade from 1.0 to 16.2 pounds U_3O_8 per short ton with an approximate average intersection grade of 4.5 pounds per short ton.

dynamic MINING EXPLORATION LTD. (No Personal Liability)
(Incorporated under the laws of Quebec)

Consolidated Balance Sheet

As at December 31, 1978

	1978	1977
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$ 151,753	$ 69,555
Accounts receivable	78,532	86,287
Prepaid expense	15,894	2,857
	246,179	158,699
PROPERTY AND EQUIPMENT, at cost (note 2)	2,567,583	1,777,928
Less accumulated depreciation and depletion	308,909	146,412
	2,258,674	1,631,516
	$2,504,853	$1,790,215
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 115,535	$ 125,399
LONG-TERM DEBT (note 3)	455,825	575,364
DEFERRED INCOME TAXES	155,319	123,319
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)		
Authorized		
10,000,000 Common Shares, par value $1 each		
Issued		
4,116,290 Shares (1977 — 3,304,626)	2,186,288	1,374,624
CONTRIBUTED SURPLUS	100,634	—
DEFICIT	(508,748)	(408,491)
	1,778,174	966,133
	$2,504,853	$1,790,215

Approved by the Board

Director

Director

Consolidated Statement of Earnings and Deficit

Year Ended December 31, 1978

	1978	1977 (note 1 (a))
Revenue		
Oil and gas sales	$ 453,356	$ 138,757
Expenses		
Production	188,698	57,177
Administration	128,730	45,779
Non-productive exploration	21,770	—
Interest on bank production loan	19,918	3,354
Depreciation and depletion	162,497	61,628
	521,613	167,938
Loss before income taxes	(68,257)	(29,181)
Deferred income taxes	32,000	6,180
LOSS FOR THE YEAR	(100,257)	(35,361)
Deficit at beginning of year	(408,491)	(373,130)
DEFICIT AT END OF YEAR	$(508,748)	$(408,491)
LOSS PER SHARE	(2.8¢)	(1.1¢)

Auditors' Report

To the Shareholders of
Dynamic Mining Exploration Ltd.
(no personal liability)

We have examined the consolidated balance sheet of Dynamic Mining Exploration Ltd. (no personal liability) as at December 31, 1978 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The ultimate recovery of the Company's investment in non-producing mining property is dependent upon developing economic mining operations or the sale or disposition of such property for amounts equal to the Company's investment therein (see note 2).

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
April 4, 1979

THORNE RIDDELL & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1978

	1978	1977
WORKING CAPITAL DERIVED FROM		
Issue of capital stock		
For cash	$ 563,634	$ —
For property	327,000	—
For settlement of amounts due on agreement for sale	21,664	124,596
	912,298	124,596
Operations	94,240	32,447
Agreement for sale	—	650,000
Increase in bank production loan	107,950	73,500
	1,114,488	880,543
WORKING CAPITAL APPLIED TO		
Acquisition of Bravo Resources Ltd. including costs of acquisition	—	698,234
Less working capital acquired	—	35,565
	—	662,669
Additions to property and equipment		
Producing petroleum properties	6,684	45,851
Non-producing petroleum properties	777,231	9,028
Exploration, development and other expenditures on non-producing mining property	5,740	19,009
Payment on agreement for sale	227,489	216,686
	1,017,144	953,243
INCREASE (DECREASE) IN WORKING CAPITAL	97,344	(72,700)
WORKING CAPITAL AT BEGINNING OF YEAR	33,300	106,000
WORKING CAPITAL AT END OF YEAR	$ 130,644	$ 33,300

Notes to Consolidated Financial Statements

Year Ended December 31, 1978

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bravo Resources Ltd.

Until August 31, 1977 the activities of the Company were exploration and development of mining property and all expenditures less interest earned were deferred. Following the acquisition of Bravo Resources Ltd. on September 1, 1977 the Company began receiving revenues from oil and gas sales and accordingly the comparative consolidated statement of earnings is for the period from September 1, 1977 to Devember 31, 1977.

(b) Petroleum and Natural Gas Properties

The Company capitalizes the acquisition costs of both producing and non-producing petroleum and natural gas properties and charges such costs against earnings if the property is subsequently surrendered. The cost of drilling a productive well is capitalized and the cost of a non-productive well is charged to earnings when the well is determined to be dry. Depreciation and depletion of the costs of producing leases, development costs and production equipment is provided using the unit of production method based upon estimated quantities of proven petroleum and natural gas reserves as determined by independent consulting engineers.

(c) Non-Producing Mining Property

The costs of non-producing mining property are capitalized by area of interest when acquired and when all claims in an area of interest are surrendered such costs are written-off against earnings. Included in mining property costs are exploration, development and other expenditures which have been deferred with the intention that they be amortized against revenue from future mining operations. The recovery of the costs of the non-producing mining property is therefore dependent upon developing economic mining operations or the sale or disposition of such property for amounts equal to the Company's investment therein.

(d) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the financial statements. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in the financial statements.

2. PROPERTY AND EQUIPMENT

	1978			1977
	Cost	Accumulated Depletion and Depreciation	Net	Net
Producing petroleum and natural gas properties including development and equipment thereon	$ 987,782	$308,909	$ 678,873	$ 834,686
Non-producing petroleum and natural gas properties including development thereon	803,903	—	803,903	26,672
Non-producing mining property mineral claims	325,000	—	325,000	325,000
Deferred exploration, development and other expenditures	450,898	—	450,898	445,158
	775,898	—	775,898	770,158
	$2,567,583	$308,909	$2,258,674	$1,631,516

3. LONG-TERM DEBT

	1978	1977
Bank production loan	$250,000	$142,050
Agreement for sale	205,825	433,314
	$455,825	$575,364

The bank production loan is evidenced by demand promissory notes secured by petroleum and natural gas properties. The loan is repayable out of future production proceeds and, accordingly, is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities. Interest is payable at the rate of 1-1/4% above the prime rate set from time to time by a Canadian chartered bank.

The non-interest bearing agreement for sale is secured by a fixed charge debenture on certain petroleum and natural gas properties. The final instalment on the agreement for sale is due on January 2, 1980. By giving notice prior to that date, each debenture holder can elect to receive one share of the Company in full settlement of each $1 due.

The estimated principal payments on long-term debt for the next two years are as follows: 1979 — $132,000; 1980 — $323,825.

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Transactions affecting the Company's capital stock during the year are as follows:

			Allocated to	
	Number of Shares	Ascribed Value	Capital Stock	Contributed Surplus
Balance at December 31, 1977	3,304,626	$1,374,624	$1,374,624	$ —
Issued during the year				
For cash	500,000	563,634	500,000	63,634
For petroleum and natural gas property	290,000	327,000	290,000	37,000
For settlement of amounts due on agreement for sale (note 3)	21,664	21,664	21,664	—
	811,664	912,298	811,664	100,634
Balance at December 31, 1978	4,116,290	$2,286,922	$2,186,288	$100,634

Capital stock is comprised of:

Shares issued at par value or greater	1,586,285
Shares issued at a discount	2,530,005
	4,116,290

At December 31, 1978 common shares were reserved for issuance as follows:

On conversion of agreement for sale (note 3)	205,825
On exercise of share purchase warrants	
At $1.00 per share until August 31, 1980	325,000
At $1.20 per share until October 4, 1979 and $1.44 per share from October 5, 1979 until October 4, 1980	250,000
	780,825

5. STATUTORY INFORMATION

Direct remuneration paid during the year to directors and senior officers of the Company (as defined by the Quebec Companies Act to include all employees of the Company) was $25,600.

DIRECTORS:
GORDON R. TRAVIS, *Calgary, Alberta*
VICTOR E. TRUDEL, *Calgary, Alberta*
FREDERICK J. BIRKS, *Calgary, Alberta*

OFFICERS:
GORDON R. TRAVIS, *President*
MARLENE J. KAZAKOFF, *Secretary-Treasurer*

HEAD OFFICE:
720 STOCK EXCHANGE TOWER,
800 PLACE VICTORIA,
MONTREAL, P.Q.

EXECUTIVE OFFICES:
970 CALGARY PLACE NUMBER THREE,
355 - FOURTH AVENUE S.W.,
CALGARY, ALBERTA T2P 0J1

AUDITORS:
THORNE RIDDELL & CO.
Calgary, Alberta

BANKERS:
THE CANADIAN IMPERIAL BANK OF COMMERCE,
Calgary, Alberta

REGISTRAR:
MONTREAL TRUST COMPANY,
Quebec City

TRANSFER AGENT:
MONTREAL TRUST COMPANY,
Quebec City, Montreal, Calgary and Vancouver

SHARES LISTED:
THE MONTREAL STOCK EXCHANGE

THE ALBERTA STOCK EXCHANGE

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA